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## **EPA Reply To Parties' Questions And Comments To July 26, 2006 Final Analysis of the Environmental Protection Agency**

Below we reply to questions, and some comments, raised by the parties in their responses to EPA's July 26, 2006 *Comments on Docket No. 05-0069 For the State of Hawaii Public Utilities Commission*. The questions and certain comments provided by the Consumer Advocate, Department of Defense and HI Renewable Energy Association are addressed below. Comments provided the Hawaiian Electric Company were reviewed and EPA determined that no reply to these comments was warranted. The Rocky Mountain Institute, County of Kaua'i, and Kauai Island Utility Cooperative did not comment on the EPA report.

### **I. DIVISION OF CONSUMER ADVOCACY'S RESPONSE TO THE EPA'S REPORT**

**1. CA Comment (p. 2):** "1. The EPA makes no specific recommendation regarding whether energy efficiency goals should be established or what they should be, although the EPA appears to favor the establishment of "top-down," state-wide goals. The Consumer Advocate agrees that goals should be established, but recommends that the goals result from a "bottom up" process in integrated resource planning ("IRP") proceedings, thereby considering the specific needs of each utility;" and (p. 4) "The EPA's discussion of energy efficiency goals (at 5-10) does not sufficiently emphasize the importance of tying goals for DSM programs to each utility's underlying needs. While the EPA recognizes that DSM goals can "complement" other state policies (at 7), the EPA's discussion implies that Hawaii can merely select goals that are consistent with Hawaii's RPS percentages or the energy efficiency goals percentages that have been established in other states. The Consumer Advocate cautions against simply adopting goals that have been established by other states. Rather, the benefits of DSM likely will be maximized if the types and quantities of programs match closely the needs of each utility (e.g., in terms of capacity requirements, emissions reductions, rate impacts, etc.)."

**EPA Reply:** The EPA is not a party to this proceeding and therefore does not advocate any one specific approach for setting energy efficiency goals. Rather, EPA has outlined the different options and implications for Hawaii in order to support further discussion. The EPA acknowledges the Consumer Advocate's position regarding linking DSM goals to each utility's underlying needs.

The EPA recognizes that there may be alternative approaches to setting goals that have not been implemented in other states and jurisdictions. While the report focuses on goals previously established by other states, the EPA recognizes that there may be other approaches worthy of consideration. The EPA encourages discussion of all alternative methods to adopting statewide goals under this proceedings.

**2. CA Comment (p. 2):** "2. The EPA states that more analysis is warranted before deciding on the final market structure for DSM programs. The Consumer Advocate recommends that a third-party DSM program administrator be implemented in Hawaii. The third-party DSM program administrator would be responsible for the administration of all DSM programs for each utility."

**EPA Reply:** The EPA does not share the opinion that further analysis on this issue is not warranted. The EPA asserts that the issue of market structure has far reaching implications for

the state of Hawaii and several issues must be considered before reaching a decision. The Commission must take into consideration several factors including market size and geography, administrative costs, delivery of service and qualified parties. In addition, the issue of market structure will be largely influenced by the level, structure and type of energy efficiency goals set for the State. This issue of energy efficiency goals has not been resolved at this juncture. As such, the EPA recommends thorough consideration of several proposed market structures including third party administration.

## **II. Department of Defense's Response to the July 26, 2006 Final Analysis of the Environmental Protection Agency**

**1. DOD Comment (pp. 1-2 under Decoupling):** "At page 30, in the first full paragraph, the Report refers to DOD's position in opposition to decoupling. It observes DOD pointed out that, among other things, decoupling effectively shifts sales variation risks from the utility to the customers. The risks shifted include weather, economic cycles, adoption of new efficiency standards, and anything else that affects sales. After accurately noting DOD's statement about the shifting of risks, the Report then says "the counterargument is that weather and business cycles also may swing the other direction and provide ratepayers with a benefit." The fact that in some instances the end result might be beneficial to the customer is beside the point, and is really not a counter-argument to DOD's position concerning risk shifting, or to DOD's position in opposition to decoupling. Risk shifting is just that – the risk of variations in sales, whether they are positive or negative, is shifted from the utility to the customers."

**EPA Reply:** The EPA recognizes that "counter-argument" may not have been the appropriate term to use in this instance. The EPA's intention was to demonstrate another aspect (positive customer impacts) of the risk characterized by DOD in its SOP. The EPA agrees that the risk of variations in sales may have positive or negative impacts on utility customers.

**2. DOD Comment (p. 2 under Incentive Mechanisms):** "At page 31, the Report characterizes DOD's position as favoring the "stick" without the "carrot" approach. This is a curious characterization, because it seems to equate the "stick" with the expectation that a utility will perform up to its public service obligation by installing the right amounts and kinds of resources (demand-side or supply-side) that produce the best outcome for consumers. DOD's position is that utilities should be expected to do a good job both with respect to demand-side resources and supply-side resources, and DOD sees no reason to single out demand-side resources from the rest of a utility's operations in order to create a special reward."

**EPA Reply:** The EPA appreciates DOD's view that DSM is a part of the utilities operations and therefore should not be singled out for special incentives. The Commission could take DSM performance into account when deciding rate of return in the context of total utility operations.

The EPA was simply exploring another point of view where DSM implementation results in a reduction in the quantity of energy utilities deliver. This reduction results in a financial disincentive for the pursuit of DSM and creates an environment where utilities are reluctant to aggressively pursue energy efficiency measures. As such, an incentive specific to DSM activity could potentially remove this financial disincentive.

